



Public Employee Retirement System of Idaho

PUBLIC EMPLOYEE RETIREMENT SYSTEM OF IDAHO  
607 North 8th Street  
BOISE, IDAHO 83702

MINUTES  
OF  
MEETING OF RETIREMENT BOARD

The Board of the Public Employee Retirement System of Idaho met at the PERSI Administration Building, 607 North Eighth Street in Boise, Idaho at 8:30 a.m. April 27, 2004. The following members were present:

Jody B. Olson  
Susan K. Simmons

Trustees J. Kirk Sullivan, Dennis Johnson and Pamela Ahrens were absent and excused. Executive Director Alan H. Winkle, Deputy Attorney General Brad Goodsell, Chief Investment Officer Robert Maynard, and Management Assistant Joanne C. Ax were also in attendance. The electronic projection of materials and documents discussed in the meeting was handled by Betsy Griffith. Other persons attending portions of the meeting were:

Paul Saylor  
Vicki Aponik  
Rod MacKinnon  
William Palumbo  
Drew Black  
Brian McGrath  
Casey Maslonka  
Charlie Brown  
David Boren  
Doug Bates  
Matt Haertzen  
Vickie Burnet  
Jim Shakelford  
Blas Telleria  
Matt Freeman  
Richelle Sugiyama

CC Capital Management, Inc.  
CC Capital Management, Inc.  
Mountain Pacific Investment Advisors  
Mountain Pacific Investment Advisors  
DB Fitzpatrick & Co.  
DB Fitzpatrick & Co.  
DB Fitzpatrick & Co.  
REAI  
Clearwater Advisors  
Clearwater Advisors  
Endowment Fund Investment Board  
IPEA  
IEA  
IEA  
LBO  
PERSI

OLD BUSINESS:

Approval of Minutes: For lack of a quorum, the approval of the minutes was held over to the next meeting.

## PORTFOLIO

Paul Saylor of CS Capital Management Inc. discussed the current real estate market and The Koll Company venture. His report noted that PERSI and The Koll Company formed a venture for the acquisition, intensified management, physical improvement and resale of multi-tenant industrial properties located primarily in Southern California. He reviewed the benchmarks and checks and balances of the venture. Vickie Aponik then discussed details of several of these properties. About one-third of the funds allocated to this sector are currently committed. Mr. Maynard said he is pleased with the approach Mr. Saylor is taking in the Koll venture. We are involved and have a more "hands-on" presence through Mr. Saylor.

Chairman Olson asked about ownership changes at Lend Lease Rosen. CIO Robert Maynard said negotiations are moving ahead and changes may occur.

Other Portfolio Issues: Mr. Maynard said there are six investment manager finalists. He discussed each briefly. Callan is providing a final review package to the Board with the characteristics of each of the candidates. A public meeting will be held the morning of Friday, May 21 and the afternoon of Monday, May 24<sup>th</sup> to listen to finalist presentations. He expects to present recommendations to the Board at the May 25<sup>th</sup> regular meeting of the Board. Staff expects the portfolio rebalancing and funding of any approved managers to be completed by mid-June so that fund transfers are completed by our fiscal year end June 30. As we fund new managers, we will rebalance the total portfolio which is currently overweighted to equity. We are using a transition management service to assist in this transition. Chairman Olson asked that at the May 25 Board meeting, the allocation, including the rebalancing and potential funding of new managers, be presented and discussed. Trustee Ahrens is not able to participate in the on-site manager visits, but continues to work closely on the new manager selection process.

Monthly Portfolio Update: Mr. Maynard discussed his investment report dated April 25, 2004, which was an update from a version previously provided to the Board. In the report, Mr. Maynard noted that the fund is up 18.1% for the fiscal year-to-date, slightly higher (about 0.9%) than the last Board meeting, although the markets have dropped noticeably in the past couple of weeks. Although the economic and earnings data are generally very positive, with jobs data finally showing some positive traction, the markets now expect that inflation pressures will cause the Federal Reserve to raise interest rates. As a result, the markets have tracked generally sideways over the past month.

This fear of interest rates rising has significantly hurt two of PERSI's strategic allocations this month: TIPS and REITs. REITs, in particular, have seen a crash in their prices (about 13% for the month to date) as investors who had been borrowing short term and investing in REITs for the dividend yield (around 6%) unwound their positions. As a result of these two asset

types having a worse than usual month, PERSI has lost some ground (around 30 basis points) against the market benchmark (the 55-15-30 index return). All managers are either within their expected characteristics or have reasonable explanations for slight deviations. All managers are also performing within expectations given the markets.

Manager Comments: The Chairman invited managers who were present to comment on the markets and the economy. The managers discussed rising gas prices, restaurant and commodity inflation as well as expected interest rate increases. Matt Haertzen invited the Trustees to an investment manager summit of the Endowment Fund Investment Board at the Grove on May 11, 2004 at noon.

Other Portfolio Business: Mr. Maynard said we are considering moving the index funds and respective benchmarks from the Russell 3000 to the S&P 1500 and will keep the Board informed on this issue.

## FISCAL

Update and Expense Reports: Financial Officer James Monroe reviewed the out-of-state travel report, the administrative expense and the portfolio expense reports. Diane Berg has been hired as our new DC Plan Specialist. She is attending a conference and will meet members of the Board during the month. Merit increases have been awarded to employees. In response to a question from Trustee Simmons, Mr. Monroe said although the Division of Financial Management has made personnel changes, Maria Barratt is still our Budget Analyst. Ms. Simmons commented that she had asked to have her pending July trip to attend a conference for International Investing for Pension Professionals listed on this report. Chairman Olson encourages trustees to attend a couple of conferences each year as we are a rural state and need interactions with peer trustees.

Alternative Excessive Trading Approach: Executive Director Winkle reviewed the April 19, 2004 memorandum to the Board regarding the excessive trading issue. Mellon Trust was not able to implement the Pending Trades approach previously approved by the Board. After discussion, Chairman Olson deferred the issue until the next Board meeting when more information will be available.

Status Update: Mr. Winkle reviewed his April 21, 2004, memorandum to the Board which provided a summary of the projects in which PERSI is involved. The BPR team continues interviews with staff documenting current processes. They expect to begin the recommended process change phase in June or July. PERSI will host the CEM (Cost Effectiveness Measurement, Inc.) National Conference next spring in Boise. Chairman Olson said the Board appreciates and is supportive of the extra work PERSI staff is doing to showcase our system. Results from the latest CEM report will be presented at the next meeting. Employer meetings around the state have begun and staff is also working on obtaining more accurate data for the school sick leave valuation. There was discussion of the time frame for a Board

discussion of the actuary's recommendations and for a decision on the actuarial assumptions. The June regular meeting of the Board, previously scheduled for Pocatello, will be cancelled and the actuarial issues will be on the July 27 meeting in Boise.

Adjournment: There being no further business before the Board the meeting concluded at 10:05 a.m.

Jody B. Olson  
Chairman

Alan H. Winkle  
Executive Director